

HIGHER EDUCATIONAL AIDS BOARD

BOARD REPORT #03-05

2003-05 BIENNIAL BUDGET ISSUES

When reviewing the budget issues presented in this report, please keep in mind the rationale and policy framework for Wisconsin's Student Financial Aid Structure included below. This report as well as the discussion that will take place at the August meeting should provide a basis to act on these issues.

To date 2003-05 Budget Instructions have not been distributed. As this report is being prepared the 2001-03 Biennial Budget Adjustment Bill has not been finalized. However it is clear that, in terms of requesting additional funds for the next biennial period, the opportunities appear to be limited.

Present Board Policies

In 1968, a rational and policy framework for Wisconsin's Student Financial Aid Structure was established. Today, in 2002, the rational and policy framework continues to operate. Essentially, there are two broad goals and seven operational policies that serve to implement the broader goals. The two broad goals, Universal Educational Opportunity and Educational Diversity or "Freedom of Choice," are looked upon as educational goals which can be achieved in part through the financial aid structure.

The first goal is to eliminate financial barriers and thereby insure an educational opportunity for all Wisconsin citizens commensurate with their desires and abilities. This goal suggests that it is the primary purpose of the student financial aid structure to insure an educational opportunity for all citizens commensurate with their desires and abilities regardless of their financial circumstances. This goal does not imply that the same educational experience need be provided to all students, but it does require that all students be given an equal opportunity to pursue an education consistent with their individual abilities, interests and ambitions. It has been recognized that if society is to achieve the goal of equality of opportunity it must first insure the equality of educational opportunities. As a result of the technological revolution, the knowledge explosion, and the development of a highly skilled and complex society, education has become the most important key to the "American Dream." The educational investment in human resources has a direct impact on the economic and technological development of the nation. This circular relationship between providing universal educational opportunity results in benefits which accrue to society in addition to those which accrue directly to the individual in terms of personal fulfillment and economic security. Every citizen has a right to participate in the economic, social, and political aspects of our society. Education provides the opportunity to exercise this right of full participation and, consequently, must be made equally available to all.

The second goal of the Financial Aid Structure is to support existing Educational Diversity by allowing students the freedom to choose among the various educational offerings. Educational Diversity implies a wide range of academic environments, programs, and course offerings as well as diversity in sponsorship e.g. public and private. A comprehensive educational environment is one which offers technical training in addition to collegiate programs not of the technical nature; one and two year programs as well as four year programs. The diversity issue generally concentrates on the need to preserve the strength and vitality of private schools of higher education for the following reasons:

1. To assure to students the opportunity of selecting an institution on such basis as academic program, campus environment, size, etc..
2. To stimulate healthy competition in seeking distinctions, whether by innovations in program or by quality achievements.
3. To maximize the use of educational resources including faculties, facilities, etc.

In order to implement the two goals described above, the following operational policies were established to serve as the guideposts of the Financial Aid Structure.

1. The first operational policy designed to implement the goals of the Financial Aid Structure is that **financial aid be distributed on the basis of the student's financial need** in order to maximize financial resources and thereby insure an educational opportunity to the greatest number of students.
2. The second operational policy designed primarily to implement the goal of educational diversity or freedom of choice is **equalization**. Equalization supports diversity and insures freedom of choice by placing all students in the same relative position vis' a vis' governmental instructional subsidies.
3. The third operational policy, **awarding for excellence**, requires that academic excellence be recognized.
4. The fourth operational policy, **shared responsibility**, recognizes the multiple responsibility of the student, the student's parent/s or spouse, government, and private sources to contribute to educational costs.
5. The fifth policy, **recognizing the unique financial needs of the disadvantaged**, suggests that it is a responsibility of the financial aid structure to recognize and relate to the unique financial needs of the economically disadvantaged.
6. The policy, **maximization of resources**, emphasizes the need to maximize the contribution of financial aid resources provided by all sources including students, spouses, parents, government, institutions, and private sponsors.
7. The last policy, **administrative coordination and simplicity**, recognizes the importance of providing coordinated, equitable, efficient, and responsive administrative framework designed to implement the other policies enumerated above. The enactment of the State's financial aid programs and subsequent assignment of these programs to the Higher Educational Aids Board points out the desirability of insuring an orderly development and coordination of the State's Financial Aid Structure as well as equitable, efficient, and responsive distribution mechanisms. In order to best serve the body of Wisconsin students who are attending a wide range of schools including public and private, in-state as well as out-of-state, two year programs and four year programs, coordinated State financial aid programs are essential. Meeting this requirement and, in addition, fulfilling the Legislative mandate of providing an annual review of the State's Financial Aid Structure, suggests that a single governmental body should be responsible for the administrative coordination of the State's financial aid programs.

To summarize, the **State Student Financial Aid Policy Framework** is as follows:

I. Goals of the Financial Aid Structure

- A. Removal of all financial barriers in order to insure an Educational Opportunity for all Wisconsin citizens commensurate with their desires and abilities.
- B. Support of Educational Diversity by allowing students the freedom to choose educational programs on the basis of their interests and abilities.

II. Operational Policies

- A. Distribution of student financial aid on the basis of the student’s financial need in order to maximize financial resources and thereby insure an educational opportunity to the greatest number of students.
- B. Equalization of the instructional subsidy paid on behalf of students thereby insuring maximum freedom of choice.
- C. Recognition of academic excellence.
- D. Recognition of the multiple responsibility of the student, the student’s parent/s or spouse, government, and private sources to contribute to educational costs.
- E. Recognition of the unique financial need of the economically and educationally disadvantaged.
- F. Maximization of the financial aid resources provided by all sources including students, the student’s parent/s or spouse, government, institutions, and private sponsors.
- G. Implementation of these operational policies through a coordinated, equitable, efficient and responsive administrative framework.

Budget Issues

I. Request Funding Increases for Broadest Need Based Grant Programs

The 1997-99, 1999-01 and 2001-03 biennial budgets increased the UW and WTC Wisconsin Higher Education Grant (WHEG) and Wisconsin Tuition Grant (WTG) Programs as follows:

| | 1997-99 | | 1999-01 | | 2001-03 | |
|----------|---------|-------|---------|-------|---------|-------|
| UW WHEG | 15.54% | 4.50% | 9.60% | 0.00% | 4.50% | 4.50% |
| WTC WHEG | 4.00% | 4.00% | 6.00% | 6.00% | 3.25% | 3.25% |
| WTG | 7.00% | 7.00% | 7.00% | 7.00% | 2.50% | 2.50% |

These were very substantial particularly when compared to funding increases/decreases that occurred in the last ten years. Prior to 1997, the last substantial increase for both the WHEG and WTG Programs occurred in 1989-91. Total funds available for the academic year 2002-03 under the UW/WTC WHEG and WTG Programs currently total \$56,817,300 compared to \$36,679,700 ten years ago (54.9% increase). Currently, Wisconsin ranks 13th in the country for providing need based grants like the WHEG and WTG to undergraduates.

Programs other than the WHEG and WTG Programs have experienced sporadic funding increases/decreases in the last ten years. The 1999-01 biennial budget included the following increases in the Talent Incentive Program (TIP):

| | 1999-01 | |
|-----|---------|-------|
| TIP | 7.00% | 7.00% |

No increases were included for TIP in the 2001-03 budget. However, the Minority Undergraduate Grant and Minority Teacher Loan Programs did experience the following increases in 2001-03:

| | 2001-03 | |
|------------------------------|---------|-------|
| Minority Undergraduate Grant | 4.50% | 4.50% |
| Minority Teacher Loan | 4.50% | 4.50% |

Historically, funding for programs administered by the Higher Educational Aids Board was tied to the cost of education. For example, funding for the WHEG Program when it was initially created was tied to meeting 33.33% of the cost of education. To meet 33% of the Wisconsin student's cost of education today (excluding the Expected Family Contribution and other available need based assistance) funding for the WHEG and WTG Programs would need to increase by approximately 69% for 2002-03. Most recently, funding requests have been tied to tuition increases. Tuition increases from year to year can range from 5 to 9%. If the 2001-03 Budget Adjustment Bill is finalized in its most current form, the UW WHEG Program funding increases in the future will be tied to increases in the previous year's tuition increase.

The maximum one can be awarded under TIP per statutes is \$1,800 per academic year. The current level of funding allows a maximum of \$1,400 for continuing students (with an average award of \$1,267 for all students in 2001-02). In order to fund students to the statutory maximum award of \$1,800, funding would need to increase 31% in 2002-03.

The maximum one can be awarded under the WHEG program per statutes is \$1,800 per academic year. The 2001-02 level of funding allowed a maximum of \$1,050 for WTC students (with an average award of \$699) and \$1,546 for UW students (with an average award of \$1,012). In order to fund students to the statutory maximum award of \$1,800, funding would need to increase 159% for WTC students and 67% for UW students in 2002-03 (not including any budget adjustment bill potential increases).

In 1990-91 8.95 percent of the financial need, calculated for Wisconsin students receiving State assistance, was met by the TIP, WHEG, and WTG Programs. In 2000-01 8.58 percent of student's financial need was met by the same three programs. An additional \$2,474,025 (4.29% more in funding) in 2000-01 would have brought these three programs back to meeting 8.95 percent of financial need as ten years prior.

What should funding requests for the broadest need based grant programs be tied to? What is the role of state funded higher education financial assistance programs in meeting the need of its residents?

II. Expand and Increase Maximum Award for Minority Undergraduate Grant

Awards under the Minority Undergraduate Grant Program are made to resident minority undergraduates, excluding first year students. The student must be enrolled at least half-time at an Independent or a Wisconsin Technical College institution. According to the statutes, a minority student is defined as a student who is an African American, American Indian, Hispanic, or Southeast Asian from Laos, Cambodia, or Vietnam admitted to the U. S. after December 31, 1975. Awards are based on financial

need with a maximum grant of \$2,500 per year, which can be received for up to eight semesters. The University of Wisconsin System has a similar program for students attending those institutions called the Lawton Grant.

During the 2001-02 academic year, 319 Wisconsin Technical College students received on average \$1,134 grants under this program. That same year, 274 Independent College and University students received on an average \$1,309. A total of \$720,542 was awarded to all recipients in 2001-02. If funds were available, best projections indicate that an additional \$4,969,350 could have been spent beyond the \$756,900 allocated for 2002-03.

Recently surveyed students who have participated in the program indicated that the grant positively affected their decision to return to or stay in school. One hundred percent of the survey respondents either had earned their degree/certificate or continue to work towards obtaining a degree/certificate.

Based on projections, in approximately 2017 our minority population will become our majority population. In 2012 it is expected that 40% of our high school graduates will be minority students. The question has been raised, "Will our future majority residents be educationally prepared?" Colleges and universities around the State see a need for increasing the maximum and the overall funding in addition to expanding the eligibility to include first year students. This would allow not only the retention of today's minority students but would also provide a mechanism to recruit students. Some schools have indicated that the current level of funding under this program has discouraged them from making students aware of the program's existence due to the fear of creating the "false hope of funding availability" among students.

Should an increase in the maximum Minority Undergraduate Grant and its appropriation be pursued? Should the program be expanded to also include first year students?

III. Expand Funding and Forgiveness Parameters and Increase Maximum Award for Minority Teacher Loan

The Minority Teacher Loan (MTL) Program provides loans at five percent interest in amounts of up to \$2,500 per year (with a maximum of \$5,000 total) to Wisconsin resident, minority, undergraduate juniors or seniors. Recipients must be enrolled at least half-time in programs leading to teacher licensure at an Independent or University of Wisconsin Institution. According to the statutes, a minority student is defined as a student who is an African American, American Indian, Hispanic, or Southeast Asian from Laos, Cambodia, or Vietnam admitted to the U. S. after December 31, 1975. The student who participates in this program must agree to teach in a Wisconsin school district in which minority students constitute at least twenty nine percent of total enrollment or in a school district participating in the inter-district pupil transfer (Chapter 220) program. For each year the student teaches in an eligible school district, 25% of the loan is forgiven. If the student does not teach in an eligible district, the loan must be repaid at an interest rate of 5%.

During the 2001-02 academic year, 107 students received on an average \$2,230 in loan assistance under this program. A total of \$238,662 was awarded to all recipients in 2001-02. If funds were available, best projections indicate that an additional \$262,100 could have been spent beyond the \$262,100 allocated for 2002-03. Some schools have indicated that the current level of funding under this program

has discouraged them from making students aware of the program's existence due to the fear of creating the "false hope of funding availability" among students.

The MTL is also tied to the concern that we may not be sufficiently meeting the needs of the future (similar to the concerns indicated under the previous point related to the Minority Undergraduate Grant). MTL, however, is specific to training minority teachers. K-12 schools with greater than 29% enrolled minority students or schools who participate in the inter-district pupil transfer program have indicated that an enormous need to educate more minority teachers exists. Enrollment at Milwaukee Public Schools in 2001, for example, consisted of over 82% minority students. The same year, just over 30% of the teachers came from minority backgrounds. By increasing the maximum award and funding, the gap between minority students and minority teachers would decrease. A similar concern also exists at the post-secondary level. It has become increasingly difficult to recruit minority faculty. Elementary or secondary school districts with minority student populations between 10 and 29% are having a difficult time recruiting minority teachers. By expanding this program to include the participation of students intending to become post-secondary education faculty would contribute to meeting this increasing need. Expanding the forgiveness parameters to allow minority teachers who teach in districts with a minimum minority student population of 10% to have their loan forgiven would address the challenge a number of school districts around the State are having in recruiting minority teachers.

Should an increase in the maximum Minority Teacher Loan and its appropriation be pursued? Should the program be expanded to include the participation of students intending to become post-secondary education faculty? Should the program forgiveness component be expanded to include the participation of recipients teaching in school districts with a minimum minority student population of 10%?

IV. Expand and Increase Maximum Award for Indian Student Assistance Grant and Request a Funding Increase for the Tribal WHEG Program

The Indian Student Assistant Grant (ISAG) was established to assist Wisconsin residents who are at least twenty five percent Native American and are undergraduate or graduate students enrolled in degree or certificate programs at a University of Wisconsin, Wisconsin Technical College, an Independent College or University or a Proprietary Institution in Wisconsin. Awards are based on financial need with a limit of ten semesters of eligibility.

Currently the maximum award under this program is \$1,100. Prior to 1995-96, the maximum award was \$2,200. The award had been split in half in 1995-96 because funding available dropped by 50%.

Since the decrease in the maximum, there has been an increasing amount of Native American students who have been forced to drop out of school due to lack of funding. It appears that, although not all students would be eligible for a maximum of \$2,200 under this program, students who have financial need have very high financial need and require the highest maximum grant possible in order to afford to stay in school.

In order to fund an increase in the maximum, the program's appropriation would also need to double. The ISAG Program is funded through Gaming Funds unlike the majority of other programs HEAB administers which are funded through General Program Revenue.

The Tribal Wisconsin Higher Education Grant (WHEG) Program, established in 1999, provides grant assistance to undergraduate, Wisconsin residents enrolled at least half-time in degree or certificate programs at one of Wisconsin's two Tribal Colleges. Awards are based on financial need. The maximum one can be awarded under the WHEG program per statutes is \$1,800 per academic year.

During the 2001-02 academic year, 290 Wisconsin Tribal College students received on average \$1,378 grants under this program. A total of \$399,776 was awarded to all recipients in 2001-02. Each year of this program's existence students have been placed on a waiting list due to lack of funds. If funds were available, best projections indicate that an additional \$452,000 could have been spent beyond the \$404,000 allocated for 2002-03. The ISAG Program is funded through Gaming Funds unlike the majority of other programs HEAB administers which are funded through General Program Revenue.

Should an increase in the maximum ISAG and its appropriation be pursued? Should a funding request be made for the Tribal WHEG Program?

V. Expand Funding and Forgiveness Parameters for Nursing Student Loan Program

The Nursing Student Loan Program provides loans to Wisconsin residents who are enrolled at least half-time at an eligible in-state institution that prepares them to be licensed as nurses, either RN or LPN. The maximum award per year is \$3,000 with an overall maximum of \$15,000. The student who participates in this program must agree to be employed as a licensed nurse in Wisconsin. For each of the first two years the student nurses and meets the eligibility criteria, 25% of the loan is forgiven. The balance remaining after forgiveness must be repaid at an interest rate not to exceed 5%. If the student does not nurse and meet the eligibility criteria, the loan must be repaid at an interest rate not to exceed 5%.

This program was established as part of the 2001-03 biennial budget with 2002-03 designated as the first year of its existence. Annual funding for this program is set at \$450,000. Currently there is an extreme shortage of nurses in the State. This program was designed to encourage more residents to consider the nursing profession in Wisconsin. However, we have already been inundated with calls and inquiries indicating that the \$450,000 appropriation does not come close to meeting the need and interest that exists in the State. Some schools have indicated that the current level of funding under this program has discouraged them from making students aware of the program's existence due to the fear of creating the "false hope of funding availability" among students. Concern has also been raised that the current maximum level of forgiveness, which is set at 50%, does not go far enough to encourage nurses to stay in the State once they have completed their degree. Similar programs that HEAB administers provides 100% forgiveness rather than 50%.

Should funding and the forgiveness parameters be expanded for the Nursing Student Loan Program?

VI. Increase Maximum/Awards for the Academic Excellence Scholarship

Academic Excellence Scholarships are awarded to Wisconsin high school seniors who have the highest grade point average in each public and private high school throughout the State of Wisconsin. The number of scholarships each high school is eligible for is based on total student enrollment. In order to receive a scholarship a student must be enrolled on a full-time basis, by September 30th of the academic

year following the academic year in which he or she was designated as a scholar, at a participating University of Wisconsin, Wisconsin Technical College, or Independent institution in the State. The maximum scholarship is currently \$2,250. The maximum scholarship for students awarded in 1995-96 and prior was full tuition and fees at a UW campus or Wisconsin Technical College, or an amount equal to the UW - Madison tuition and fees for the students attending independent institutions in Wisconsin. Half of the scholarship is funded by the state, while the other half is matched by the institution.

The intention of this program is to keep the best and the brightest in Wisconsin. Most recent data indicates that the program may no longer be fulfilling its purpose due to the \$2,250 annual maximum. Tuition (and fees) at UW - Madison (which the program was tied to in 1995-96 and prior) is \$4,088 for 2001-02. Data is showing that more students who are designated the recipient of the scholarship are choosing not to stay in Wisconsin and therefore the alternate is accepting the scholarship instead. Some would argue that the alternate may be as academically strong as the designated recipient. Since the majority of AES participants stay in Wisconsin after graduating, consideration should be given to expanding the number of scholarships awarded.

Doubling the program would increase both the appropriation and the total school's match each by approximately three million annually. If the maximum award were to be increased to \$4,088, the additional commitment would be approximately 2.6 million annually by the State. This amount would also have to be matched by the schools.

Should the maximum AES be tied to actual tuition (as in the past) rather than be capped and/or should the number of awards be expanded?

VII. Continuing Appropriation for the Wisconsin Higher Education Grant (WHEG), the Wisconsin Tuition Grant (WTG), and the Talent Incentive Program Grant (TIP)

There are four types of appropriations. Following are the definitions of each type per s.20.001(3):

Annual – An authorization which is expendable only up to the amount appropriated by the Legislature and only for the fiscal year for which it was appropriated. Amounts appropriated but unexpended or unencumbered generally lapse to the fund from which they are appropriated at the end of each fiscal year.

Biennial – An authorization which is expendable only during the two fiscal years of a biennium for which appropriated by the legislature. The amounts appropriated for each fiscal year represent the most reliable estimates of the amounts which will be expended in each fiscal year. For accounting purposes, the appropriation for the first year of a biennium is the sum of the expenditures for the fiscal year plus the encumbrances at the close of that year. The appropriation for the second year is the unexpended and unencumbered balance of the appropriation at the end of the first fiscal year. Amounts appropriated but unexpended or unencumbered at the end of a biennium lapse to the fund from which they are appropriated.

Continuing – An authorization which is expendable until fully depleted or repealed by subsequent action of the legislature. The appropriation for any fiscal year consists of the ending balance from the previous fiscal year plus the revenues received or new appropriation authority granted in the current fiscal year. Specific dollar amounts appearing in any type of an appropriation listing or schedule only represent the most reliable estimates of the amounts to be expended or encumbered during any given fiscal year and are not considered as limiting.

Sum Sufficient – An authorization which is expendable from the indicated source of funds in the amounts necessary or sufficient to accomplish the purposes for which provided. The amounts appropriated represent the most reliable estimate of the amounts which will be needed for the purposes.

Currently WHEG, WTG, and TIP Grant Programs are under the biennial appropriation type. This allows funds to be carried forward and back between the two biennial years only. In 2001-02 funds were carried back from 2002-03 for one of the programs to fund awards made in 2001-02. Also, funds will be carried forward from 2001-02 to 2001-03 for several of the programs. Funds cannot be carried forward from 2002-03 to 2003-04 or carried back from 2003-04 to 2002-03 since this would require carrying funds between biennial periods.

A continuing appropriation would allow funds to be carried forward each year (even outside a biennial period). However, funds could never be carried back. So, for example, what occurred in 2001-02 where funds were carried back from 2002-03 could not have occurred under a continuing appropriation. A continuing appropriation could provide more consistency from year to year and reduce the probability of adjusting formulas or reducing awards mid year if the formulas are set very conservatively always allowing funds to be carried forward. However, funds always being carried forward may appear to some that the programs are overfunded.

A sum sufficient appropriation type is the most attractive since this would provide funds necessary to accomplish the purpose of the programs. However, this issue relates directly to the Funding Requests issue.

Should a continuing type appropriation be sought for the WHEG, WTG, and TIP Grant Programs?